Quiz A: 3/21/12 Name & Time ____________________________

Quiz: Assume that yesterday Firms A and B were identical. However, because of changes made this morning by the management of Firm B, the expected financial distress costs are now far higher for Firm B than for Firm A.

a. Based on the information in chapter 16, what types of changes in firm B might have lead to these higher expected financial distress costs at Firm B?

b. What is the difference between the direct and indirect financial distress costs that Firm B now faces?

c. List, but do not explain, two direct and four indirect financial distress costs that Firm B might now face?

d. Based on the information in chapter 16, how large an impact do financial distress costs have on the value of the average firm?

Note: Bonus WSJ Questions on back of page